

# Budget Process, Council Review and Input, Public Hearings and Budget Adoption

Each year, the city of Phoenix budget is developed in conjunction with the mayor and City Council, residents, city employees, the City Manager's Office and all city departments.

## Modified Zero-Base Budgeting Process

The city of Phoenix uses a modified zero-base budgeting process. Each fall, departments submit an estimate (called the "base budget") of the costs associated with providing their current levels of service for the following year. Budget and Research staff review these base budget submissions to ensure that only the funding needed to continue current service levels is included in the department's base budget for the following year. This Budget and Research review is called a technical review because of its non-programmatic, line item by line item review. A department's base budget funding may differ from its current year funding for a variety of reasons. For example, an increase or decrease in electricity or postage rates would be reflected in the base budget.

In addition to base budget submissions, departments identify 5 to 10 percent of their budget for potential elimination. These submissions are called base reductions and represent the department's lowest-priority activities. At the same time, departments are asked to submit any requests for new or expanded programs. These are called supplemental budget requests.

Base reductions and supplemental requests include all costs associated with a specific program or service. For example, costs for a swimming pool would include personnel costs for a lifeguard and other staff, chemicals for the pool, building maintenance and utilities.

When base reductions and supplemental requests are submitted, they are ranked together according to the department's priorities. The department's ranking indicates whether making a base reduction to add a new program would be possible, and also indicates which supplemental programs and base reductions are most critical to the department. City Council members also are asked to submit their own ideas for budget changes.

The City Council then provides input to the city manager for the preparation of the Trial Budget, which is submitted to City Council early each spring. The purpose of the Trial Budget is to enable the community and the City Council to comment on a balanced budget well before the city manager is required to submit his recommended budget to the City Council in mid-May. Public hearings are conducted throughout the community during day and evening hours. The City Council makes final budget recommendations after the city manager's preliminary budget is submitted.

## 2004-05 Budget Process

In November 2003, the Budget and Research Department presented a General Fund budget outlook to the City Council. At that time, the mayor and Council were advised that current year budgeted revenues would be achieved but that several unavoidable cost items would impact next year's budget. These costs included returning to pay-as-you-go financing for equipment replacement instead of using lease-purchase financing; repaying lease-purchase funds borrowed over the past few years; restoring reductions made to the contingency fund

in previous years; funding operating costs associated with new capital facilities; replacing expiring federal grants for police officers with general funds; and employee compensation including increased costs associated with health insurance and pension systems. Due to these costs, the report concluded that additional cuts, up to 2.5 percent of the budget, would be necessary to balance the upcoming 2004-05 budget.

In December 2003, city departments were asked to submit base reductions equal to 5 percent of their current budget, for management review. Although this was the third year that expenditures had to be cut, departments were asked to seek creative solutions to help preserve services to the community. Departments also were asked to identify critical additions for bond-funded capital facilities coming on line in 2004-05.

Budget and Research presented an updated General Fund budget outlook in February 2004 at a Council Work Study Session. The updated expenditure forecast showed a general fund deficit for 2004-05 of approximately 1 percent. Staff also presented some alternatives on how best to proceed in balancing the upcoming budget. The mayor and Council discussed the advantages and disadvantages of implementing an "across the board cut" for all general-funded departments; using targeted cuts in different departments to better reflect community priorities; and seeking new revenue sources. Staff was directed to prepare a Trial Budget using targeted cuts to minimize the impact on community service levels. The mayor and Council requested that minimal reductions occur in public safety services.



A balanced Trial Budget was presented to the mayor and City Council on March 30. The Trial Budget recommended reductions of \$7 million to eliminate the deficit. With the exception of the Police and Fire departments, all general-funded department budgets were reduced by 1.5 percent to make up the shortfall.

The budget assumed that the economy would continue to improve with overall revenue growth of about 6 percent. The growth would be driven by local sales taxes and would be offset somewhat by reduced growth in state-shared income taxes that are expected to grow by only 2 percent. However, this forecasted revenue growth is outpaced by unavoidable costs leaving a \$7 million deficit. These costs included \$1.3 million to transition police officers from federal grants to the General Fund; \$12.5 million to shift from lease-purchase financing to pay-as-you-go financing to acquire replacement vehicles and equipment and a \$3.5 million payment to begin repayment of the lease purchase funds borrowed in the last few years. In addition, the budget included \$1 million to increase the contingency fund from the current 2.5 percent to 2.6 percent.

The Trial Budget also included \$8.4 million to fund the operating costs of bond-funded capital facilities that would be coming on line in 2004-05. The proposed capital operating costs included adding firefighters for four new fire stations located at 40th Street and Baseline Road; I-17 and Carefree Highway; 99th and Campbell avenues and a site to be selected in the future as well as staff for the Public Works Equipment Management Division to maintain the additional fire vehicles. Also recommended was additional staff for a combined Neighborhood Resource Center and police neighborhood substation located at 24th Street and Broadway Road. Police communication operators were added for the 800 MHz radio system as well as funding to maintain the software and infrastructure. Funds also were included to provide recreation services, security and maintenance of several new Parks facilities constructed with Preserve Initiative and 2001 bond funds. Other proposed capital facility operating costs included in the Trial Budget were staff for the new Cesar Chavez Regional Library and Desert Broom Branch Library, and funding for the improved Palo Verde Branch Library and Burton Barr Central Library. Facility maintenance costs were added for the expansion of the Arizona Science Center as well as the Phoenix Theater and support staff was added for information technology initiatives funded by 2001 bonds.

Despite the shortfall in General Fund resources, critical supplemental increases

were recommended for the Police Department. The proposed budget leveraged available federal grants to add 10 police officers. In addition, increased supervisory capacity was included for the police crime laboratory as well as laboratory technicians for the DNA, controlled substances, firearms and latent print sections of the lab.

The Trial Budget for Transit 2000 funds included \$900,000 to provide improvements to Dial-a-Ride services, to implement new RAPID trips in existing corridors, and in partnership with the city of Avondale, to extend the Green Line (Thomas Road) from 83rd to 115th avenues and on to the new Avondale Civic Center.

Improvements in the enterprise-funded departments also were included. For the Aviation Department, staff was added to support the expansion of Terminal 4 including the international walkway, new south concourse and the parking garage expansion. In the Public Works Department Solid Waste Division, additional staff was provided for growth from new construction and to prepare for the opening of the North Gateway Transfer Station. Water Services improvements include staff and equipment to support a new chlorination system, the implementation of a new treatment standards mandated by the EPA, expanded water and wastewater treatment facilities, and growth from

new construction. Funding also was added to convert the recently piloted Development Services Civil Citation program to permanent status.

Fourteen budget hearings were conducted throughout the community from April 7 through April 22 to gain community input. A slide show was presented at each hearing describing the Trial Budget, after which residents were invited to comment. In addition to the budget hearings, the city communicated the Trial Budget to the community through the "Phoenix Budget for Community Review" that outlined the service enhancements proposed in the Trial Budget as well as a calendar of budget hearing dates. This publication was inserted in the April 4 edition of *The Arizona Republic* and delivered to

230,000 households. A Spanish version of this publication has been included in editions of *Prensa Hispana*, *La Voz* and *El Monitor*. An insert also was included in *The Informant*. Copies of the inserts also were available at various locations throughout the city.

Presentations on the Trial Budget also were made to boards and commissions, city employees and community organizations. This publicity of the Trial Budget allowed the Council and the community to comment on a balanced budget.

The city manager's recommended budget was presented to the Council on May 4. Updates of current-year expenditure estimates provided modest additional funding of \$197,000.

Based on the comments made during

the 14 community budget hearings, the manager's budget recommended using the increased funds to restore funding for two specialized transportation contracts that serve the senior and disabled community; \$5,000 to provide interim transportation from the Friendship PAL site to nearby community centers until the Maryvale Community Center is open; and \$10,000 was added to provide additional support for the continuing development of Camp Colley. In addition, cuts in the summer youth jobs, arts grants, blight elimination and library materials were partially restored. Finally, adult arts programming at the Phoenix Center was restored by raising fees, reducing costs and using the increased funds.

On May 11, the City Council approved the city manager's recommended budget with no further changes.



The community is given the opportunity to comment on a balanced budget before it is adopted by the Phoenix City Council. A newspaper insert about the Trial Budget was distributed in *The Arizona Republic* and *Arizona Informant*, and a Spanish version was included in *Prensa Hispana*, *La Voz* and *El Monitor*.



**Tentative Budget Adoption - June 2**

A public hearing and tentative budget adoption were held June 2 in compliance with the Charter requirement that the budget be adopted no later than June 30. Upon tentative adoption, the budget becomes the City Council's program of services for the ensuing fiscal year. At this point, the Council may later decrease the budget, but only in certain instances may the budget be increased. Generally, the ability to increase the budget applies to expenditures exempted from the state expenditure limitation. Transfers between department appropriations are still permissible before the final budget is adopted.

**Final Budget Adoption - June 16**

A public hearing and final adoption will be conducted on June 16. Adoption of the property tax levy follows no less than 14 days later, on July 1 in accordance with state law.

The following chart is an overview of the 2004-05 budget calendar in tabular form.

2004-05 Budget Calendar	
Nov. 18	General Fund Budget Outlook
Feb. 3	General Fund Budget Status Report and Discussion of Budget Balancing Options
March 30	2004-05 Trial Budget and 2004-09 Preliminary Capital Improvement Program presented to the City Council
Week of April 4	Budget Inserts in Local Newspapers
April 7 – 22	Community Budget Hearings
May 4	City Manager's Recommended 2004-05 Budget presented to City Council
May 6	2001 Bond Committee Meeting
May 11	Final City Council budget review
June 2	Tentative Adoption of 2004-05 Budget and 2004-09 Capital Improvement Program
June 16	Final Budget Adoption
July 1	Property Tax Adoption

